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INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE PRIORITY

RUCNCIS/CIS COLLECTIVE PRIORITY

RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY

RUEHAK/AMEMBASSY ANKARA PRIORITY 5273

RUEHBJ/AMEMBASSY BEIJING PRIORITY 3007

RUEHKO/AMEMBASSY TOKYO PRIORITY 2872

RUEHIT/AMCONSUL ISTANBUL PRIORITY 3517

RHMCSUU/CDR USCENTCOM MACDILL AFB FL PRIORITY

RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY

RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY

RUEATRS/DEPT OF TREASURY WASHDC PRIORITY

RUEHBS/USEU BRUSSELS PRIORITY

RHEHNSC/NSC WASHDC PRIORITY

RHEFDIA/DIA WASHDC PRIORITY

RUEAIIA/CIA WASHDC PRIORITY

RUEKJCS/JOINT STAFF WASHDC PRIORITY

RUEKJCS/SECDEF WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 ASHGABAT 000704

SIPDIS

SCA/CEN; EEB

ENERGY FOR EKIMOFF/THOMPSON

COMMERCE FOR HUEPER

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SUBJECT: TURKMENISTAN: CHEVRON RECEPTIVE TO PROPOSALS THAT
GRADUALLY STEP UP PROJECT COOPERATION

Classified By: Charge Richard Miles, reasons 1.4 (b) and (d).

¶1. (C) SUMMARY: The Morningstar delegation's meeting with Chevron's country manager was an opportunity to exchange information and brainstorm on creative ways that U.S. energy companies can try to engage Turkmen officials on innovative types of agreements. For its part, Chevron is willing to look at a step by step, gradually intensifying project plan, but will not give away its unique sub-salt technology. The company is planning to submit a revised project proposal in mid-July that it hopes will be more palatable to Turkmen officials. Turkmenistan is going to need serious help in developing the Yolotan field. It is likely that its current strategy to rely on service providers for advanced technology and expertise will fail, even with Chinese participation. The big international energy companies will be ready to help, and Chevron appears prepared to make at least some compromises to remain in the race. END SUMMARY.

COMPANIES DON'T GIVE AWAY THEIR TECHNOLOGY

¶2. (C) Special Envoy for Eurasian Energy Richard Morningstar and his delegation met on May 29 with Chevron's Turkmenistan manager to exchange information about the near-term potential of major oil companies operating onshore here. The Chevron representative said Chevron was considering a Memorandum Of Understanding (MOU) type agreement that would include the basic elements of a long-term agreement. It would be an agreement that still held provisions allowing either party to back out at any time if they were not happy. However, he noted that Chevron was unwilling to provide Turkmenistan with technical assistance without the establishment of a long-term relationship. Chevron, he said, does not, as a rule, share its company technology under a service agreement.

POTENTIAL FOR A "STEP BY STEP" AGREEMENT

¶3. (C) Morningstar commented that perhaps companies should promote a road map for a step-by-step, gradually expanding commercial relationship with Turkmenistan. The Chevron

representative offered that the process could begin with an MOU and eventually transition to a more PSA-like commitment. But milestones in such an agreement would have to be negotiated. Morningstar noted that President Berdimuhamedov had acknowledged that Turkmenistan needs Western technology to achieve national goals. The representative said that any initial agreement with the Turkmen Government had to outline an energy company's intention to operate in the country for the long-term. Berdimuhamedov had demonstrated a broad knowledge of Chevron's work in Kazakhstan, which gave the company confidence that the President was aware of Chevron's reputation.

THE TURKMEN WILL HAVE TROUBLE WITH YOLOTAN

14. (C) The Chevron representative said the company has assessed that the majority of South Yolotan's extraction potential is sub-salt, and is about one third the size of the Gulf of Mexico gas field in terms of its base size. Turkmen energy officials know how to do above-salt development, but they do not know how to develop sub-salt deposits, he opined. While the Chevron representative did not know how many wells the China National Petroleum Corporation (CNPC) is operating on South Yolotan, he did report that CNPC lacks the technical expertise to develop challenging fields such as Yolotan. CNPC, he said, asked Chevron for assistance several years ago with a high H2S (toxic hydrogen sulfide gas) gas field in China. There had been an accident in which deadly gas had been released. Nonetheless, he said that CNPC is reportedly scheduled to drill 12 gas wells in Yolotan and Osman.

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ON THE SHORT TERM AND COOPERATION WITH CHINESE

15. (C) The Chevron representative said that U.S. companies could partner successfully with Chinese companies, and that Chevron had done so in the past. The Chinese focus more on commercial growth rather than on control of resources, as Russia does, he said, making them easier to work with. He requested that U.S. policy makers keep up their efforts to engage with President Berdimuhamedov, and continue to reinforce the long-term preferences of U.S. energy companies. Morningstar advised that companies like Chevron should not reject short-term opportunities, but rather find ways to convert short-term opportunities into a multi-step program of expanded partnership with the Turkmen.

CHEVRON'S PLANS

16. (C) The representative said that in his recent meetings with Deputy Chairman for Oil and Gas Tagiyev, the Deputy Chairman has hinted more often about his interest in company-provided financing to cover development costs. In a production sharing agreement, the total profits received by a government are generally quite generous, according to the Chevron representative. In any case, Chevron is prepared to provide financing or to obtain it for the Turkmen Government. The Turkmen Government should understand that large company participation here could also help ensure stable production, he added.

17. (C) The first proposal that Chevron submitted to the Turkmen Government was a broad plan to develop South Yolotan and Osman, emphasizing efforts to boost production at sub-salt fields only, he said. Sub-salt fields make up 90 percent of Yolotan gas fields, he added. Discussions with Turkmen energy officials are ongoing, he noted, and Chevron is prepared to have its representative here working on this for the next several years. Chevron anticipates submitting a revised proposal sometime in July. Morningstar asked if there was a potential risk in carrying out a service agreement and demonstrating the company's sub-salt capability. The representative said that in general, the answer is no, because its capability is demonstrated with both technology and expertise that is unique to Chevron.

18. (C) COMMENT: The Chevron representative was receptive to the idea of developing a proposal that provided steps and milestones for a gradually expanding, long-term agreement. It would need to be palatable to the Turkmen while still offering the profit potential that large energy companies need. At the same time, however, Chevron and other large energy companies know that the current Turkmen strategy to meet their production goals -- managing energy development onshore and trying to acquire technology through service agreements -- will fail. To some extent, the foreign companies are anxiously awaiting the Turkmen Government's moment of realization. In the meantime, however, Chevron understands that some compromise is going to be necessary in order to begin operations here. END COMMENT.
MILES